



ROWAN UNIVERSITY FOUNDATION
(A Component Unit of Rowan University)

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

ROWAN UNIVERSITY FOUNDATION
(A Component Unit of Rowan University)

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Rowan University Foundation:

Report on the Financial Statements

We have audited the accompanying financial statements of Rowan University Foundation (the Foundation), a component unit of Rowan University, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rowan University Foundation, as of June 30, 2018 and 2017, and the respective changes in its financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(k) to the financial statements, in fiscal 2018, the Foundation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 81, *Irrevocable Split-Interest Agreements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Short Hills, New Jersey
November 7, 2018

ROWAN UNIVERSITY FOUNDATION
(A Component Unit of Rowan University)

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Introduction

This section of Rowan University Foundation's (the Foundation) financial statements presents our discussion and analysis of the Foundation's financial performance during the fiscal years that ended on June 30, 2018 and 2017, and comparative amounts for the year ended June 30, 2016. Since this discussion and analysis is designed to focus on current activities, it should be read in conjunction with the Foundation's basic financial statements, which follow this section.

Basic Financial Statements

The Foundation's basic financial statements include three financial statements: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows, which have been prepared in accordance with GASB principles. These statements present the Foundation's operations and focus on its assets, liabilities, deferred outflows and inflows of resources, revenues, expenses, and cash flows on an entity-wide basis. The basic financial statements also include notes to the financial statements.

On August 14, 2014, the Foundation, as sole member, formed the Rowan Innovation Venture Fund (the Fund) as a legally separate limited liability corporation. The primary purpose of the fund is to establish, develop, own, manage, operate and administer a seed and early stage venture capital fund to support and leverage the innovation talents and ideas of the members of the Rowan University (the University) community and to accelerate the impact of the University on the economic development of Southern New Jersey.

In 2018, the Foundation adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). The statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources at the inception of the agreement. It also requires that a government recognize revenue when the resources become applicable to the reporting period. The Foundation's charitable gift annuity agreements meet the definition of an irrevocable split-interest agreement in which the Foundation has a remainder interest under GASB 81, and provisions have been applied to the beginning net position in fiscal year 2017.

On May 30, 2018, the Rowan University Alumni Association (the Association) ceased operations and was integrated with the Foundation. The integration resulted in the elimination of the Foundation's deposit liability associated with the net assets previously held in custody for the Association, increasing the total net position of the Foundation by \$1,555,843 as of the date of integration.

Statements of Net Position

The Statements of Net Position present the assets, liabilities, deferred inflows of resources, and net position of the Foundation as of the end of the fiscal year. The Statements of Net Position are point of time financial statements. The purpose of the Statements of Net Position is to present to the readers of the financial statements a fiscal snapshot of the Foundation.

Net position is one indicator of the current financial condition of the Foundation while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

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June 30, 2018 and 2017

From the data presented, readers of the Statements of Net Position are able to determine the assets available to continue the operations of the Foundation. They are also able to determine how much the Foundation owes vendors, investors, and lending institutions. Finally, the Statements of Net Position provide a picture of the net position (assets minus liabilities minus deferred inflows of resources) and their availability for expenditure by the Foundation.

Net position of the Foundation is divided into three major categories. The first category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of restricted nonexpendable net position is only available for investment purposes. Restricted expendable net position is available for expenditure by the Foundation but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the Foundation for any lawful purpose of the Foundation.

A condensed summary of the Foundation's assets, liabilities, deferred inflows of resources and net position as of June 30, 2018, 2017 and 2016 is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016 ⁽¹⁾</u>
Current assets	\$ 12,893,098	8,019,030	8,889,377
Noncurrent assets	<u>217,491,236</u>	<u>201,605,256</u>	<u>181,177,186</u>
Total assets	<u>230,384,334</u>	<u>209,624,286</u>	<u>190,066,563</u>
Current liabilities	2,291,196	265,334	2,372,005
Noncurrent liabilities	<u>269,771</u>	<u>1,820,340</u>	<u>1,683,168</u>
Total liabilities	<u>2,560,967</u>	<u>2,085,674</u>	<u>4,055,173</u>
Deferred inflow of resources	<u>288,024</u>	<u>286,756</u>	<u>—</u>
Total deferred inflow of resources	<u>288,024</u>	<u>286,756</u>	<u>—</u>
Net position:			
Restricted nonexpendable	143,283,589	133,312,697	126,454,072
Restricted expendable for:			
Scholarships	11,950,958	9,209,663	9,476,468
Other	15,758,025	11,697,865	7,651,550
Unrestricted	<u>56,542,771</u>	<u>53,031,631</u>	<u>42,429,300</u>
Total net position	<u>\$ 227,535,343</u>	<u>207,251,856</u>	<u>186,011,390</u>

⁽¹⁾ 2016 amounts have not been restated to reflect the adoption of GASB 81.

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June 30, 2018 and 2017

Current assets consist of cash and cash equivalents and the current portion of contributions receivable. Noncurrent assets consist of investments and noncurrent contributions receivable. Current liabilities consist of accounts payable and accrued expenses, amounts due to Rowan University, unearned revenue and the current portion of annuities payable; noncurrent liabilities consist of deposits held in custody for Rowan University Alumni Association in 2017 as well as the noncurrent portion of annuities payable.

Fiscal Year 2018 Compared to Fiscal Year 2017

The increase in total assets of \$20,760,048 is primarily attributed to an increase in investments of \$15,253,055 mainly due to an increase in fair market value and new gifts, and an increase in cash and cash equivalents of \$5,052,290.

The increase in total liabilities of \$475,293 is primarily attributed to an increase in the amount due to Rowan University of \$2,125,297, offset by the elimination of the liability for the deposits held in custody for the Association of \$1,538,396. In addition, unearned revenue decreased \$111,807 due to continued spending of grant funds, and accounts payable and accrued expenses increased \$12,372 due to timing of payments to vendors.

The total net position increased \$20,283,487. Nonexpendable net position increased \$9,970,892. Expendable restricted net position increased \$6,801,455. Unrestricted net position increased \$3,511,140 during the period.

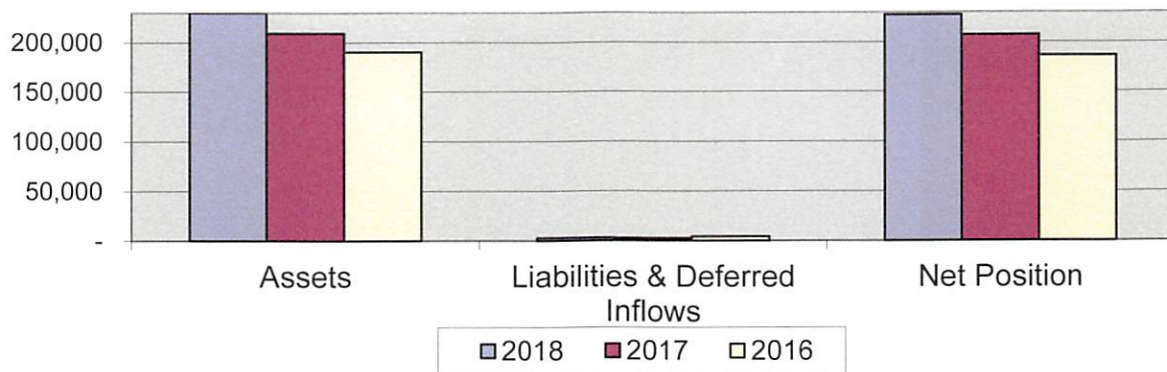
Fiscal Year 2017 Compared to Fiscal Year 2016

The increase in total assets of \$19,557,723 is primarily attributed to an increase in investments of \$20,501,485 mainly due to an increase in fair market value, offset by a decrease in cash and cash equivalents of \$1,024,263.

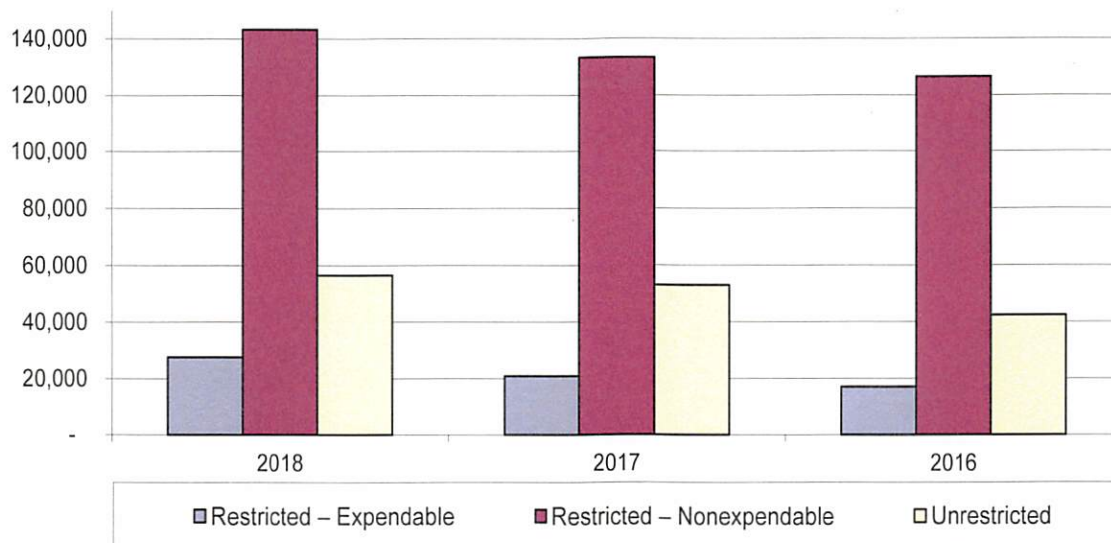
The decrease in total liabilities of \$1,969,499 is primarily attributed to a decrease in the amount due to Rowan University of \$1,491,795 related to the funding received from the Robert Wood Johnson Foundation that was paid to Rowan University in fiscal year 2017. In addition, unearned revenue decreased \$520,613 due to continued spending of grant funds, and accounts payable and accrued expenses decreased \$108,013 due to timing of payments to vendors. The total net position increased \$21,240,466. Nonexpendable net position increased \$6,858,625. Expendable restricted net position increased \$3,779,510. Unrestricted net position increased \$10,602,331 during the period.

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**Summary of Statement of Nest Assets
For the Years Ended June 30
(in thousands)**



**Comparative Net Position
For the Years Ended June 30
(In thousands)**



ROWAN UNIVERSITY FOUNDATION
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Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Statements of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statements of Net Position are based on the activity presented in the Statements of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the Foundation, both operating and nonoperating, and the expenses paid by the Foundation, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the Foundation.

Generally speaking, operating revenues are received from expendable contributions to the Foundation. Operating expenses are those expenses paid to carry out the mission of the Foundation. Nonoperating revenues are revenues received for which goods and services are not provided, nonexpendable contributions, and investment income.

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The Statements of Revenues, Expenses, and Changes in Net Position present the Foundation's results of operations. A condensed summary of the Foundation's revenues, expenses, and changes in net position for the years ended June 30, 2018, 2017 and 2016 is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016 ⁽¹⁾</u>
Operating revenues:			
Contributions	\$ 9,177,708	5,808,985	6,686,654
Fund raising events	27,475	80,148	111,937
Other revenue	35,720	—	—
Total operating revenues	<u>9,240,903</u>	<u>5,889,133</u>	<u>6,798,591</u>
Operating expenses:			
Materials and supplies	9,655	2,422	45,930
Professional and other services	391,037	365,394	676,907
Other	91,090	29,677	21,285
Grants and scholarships	13,767,017	12,303,711	14,361,710
Total operating expenses	<u>14,258,799</u>	<u>12,701,204</u>	<u>15,105,832</u>
Operating loss	<u>(5,017,896)</u>	<u>(6,812,071)</u>	<u>(8,307,241)</u>
Nonoperating revenues (expenses):			
Investment income (loss)	14,317,734	21,394,247	(3,514,396)
Adjustment to actuarial liability for annuities payable	—	—	(55,848)
Transfer from Rowan University Alumni Association	1,555,843	—	—
Net nonoperating revenue (expenses)	<u>15,873,577</u>	<u>21,394,247</u>	<u>(3,570,244)</u>
Income (loss) before other revenues	<u>10,855,681</u>	<u>14,582,176</u>	<u>(11,877,485)</u>
Additions to permanent endowments	<u>9,427,806</u>	<u>6,858,625</u>	<u>9,681,972</u>
Increase (decrease) in net position	20,283,487	21,440,801	(2,195,513)
Net position as of beginning of year	207,251,856	186,011,390	188,206,903
Restatement to beginning of year net position	—	(200,335)	—
Net position as of end of year	<u>\$ 227,535,343</u>	<u>207,251,856</u>	<u>186,011,390</u>

⁽¹⁾ 2016 amounts have not been restated to reflect the adoption of GASB 81.

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Fiscal Year 2018 Compared to Fiscal Year 2017

Operating revenues increased \$3,351,770 due primarily to an increase in operating contributions of \$3,368,723. Operating expenses increased \$1,557,595. Within operating expenses grants and scholarships increased \$1,463,306.

Net nonoperating revenues decreased \$5,520,670. This decrease is largely attributed to a decrease in investment income of \$6,867,028 due primarily to the market fluctuation, and an increase of \$209,485 in investment expense, offset by the \$1,555,843 of net position transferred from the Association.

Permanent endowment contributions for 2018 were \$9,427,806. This is a \$2,569,181 increase from the year ended June 30, 2017. The Foundation received the following contributions during 2018: \$5,000,000 for the Henry M. Rowan College of Engineering Endowment and \$2,491,035 for Jean & Ric Edelman Fossil Park Endowment.

Fiscal Year 2017 Compared to Fiscal Year 2016

Operating revenues decreased \$909,458 due primarily to a decrease in operating contributions of \$877,669. Operating expenses decreased \$2,404,628. Within operating expenses grants and scholarships decreased \$2,057,999.

Net nonoperating revenues increased \$24,964,491. This increase is largely attributed to an increase in investment income of \$24,931,097 due primarily to the market fluctuation, offset by a decrease of \$55,848 in the adjustment to actuarial liability for annuities payable and an increase of \$22,454 in investment expense.

Permanent endowment contributions for 2017 were \$6,858,625. This is a \$2,823,347 decrease from the year ended June 30, 2016. The Foundation received the following contributions during 2017: \$4,000,000 for the Henry M. Rowan College of Engineering Endowment and \$1,006,407 for Jean & Ric Edelman Fossil Park Endowment.

ROWAN UNIVERSITY FOUNDATION
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Statements of Net Position

June 30, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents (note 2)	\$ 8,707,774	5,552,834
Restricted cash and cash equivalents (note 2)	3,897,815	2,000,465
Contributions receivable, net (note 3)	12,561	38,238
Restricted contributions receivable, net (note 3)	274,948	427,493
Total current assets	<u>12,893,098</u>	<u>8,019,030</u>
Noncurrent assets:		
Investments, at fair value (note 2)	50,191,293	48,962,338
Restricted investments, at fair value (note 2)	22,466,864	18,413,656
Restricted nonexpendable investments, at fair value (note 2)	143,283,589	133,312,697
Contributions receivable, net (note 3)	7,898	6,670
Restricted contributions receivable, net (note 3)	1,541,592	909,895
Total noncurrent assets	<u>217,491,236</u>	<u>201,605,256</u>
Total assets	<u>230,384,334</u>	<u>209,624,286</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	84,030	71,658
Due to Rowan University	2,125,297	—
Unearned revenue	44,239	156,046
Annuities payable	37,630	37,630
Total current liabilities	<u>2,291,196</u>	<u>265,334</u>
Noncurrent liabilities (note 5):		
Deposits held in custody for Rowan University Alumni Association	—	1,538,396
Annuities payable	269,771	281,944
Total noncurrent liabilities	<u>269,771</u>	<u>1,820,340</u>
Total liabilities	<u>2,560,967</u>	<u>2,085,674</u>
Deferred Inflow of Resources		
Deferred inflows of resources:		
Split-interest agreements	288,024	286,756
Total deferred inflow of resources	<u>288,024</u>	<u>286,756</u>
Net Position		
Restricted (note 4):		
Nonexpendable (note 6)	143,283,589	133,312,697
Expendable:		
Scholarships	11,950,958	9,209,663
Other	15,758,025	11,697,865
Unrestricted (notes 4 and 7)	56,542,771	53,031,631
Total net position	<u>\$ 227,535,343</u>	<u>207,251,856</u>

See accompanying notes to financial statements.

ROWAN UNIVERSITY FOUNDATION
(A Component Unit of Rowan University)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Contributions (note 3)	\$ 9,177,708	5,808,985
Fundraising events	27,475	80,148
Other revenue	35,720	—
Total operating revenues	<u>9,240,903</u>	<u>5,889,133</u>
Operating expenses:		
Materials and supplies	9,655	2,422
Professional and other services	391,037	365,394
Other	91,090	29,677
Grants and scholarships:		
Grants to Rowan University (note 4)	11,061,684	9,307,903
Student scholarships	2,693,154	2,974,590
Other grants	12,179	21,218
Total operating expenses	<u>14,258,799</u>	<u>12,701,204</u>
Operating loss	<u>(5,017,896)</u>	<u>(6,812,071)</u>
Nonoperating revenues (expenses):		
Investment income, net of investment expenses	14,317,734	21,394,247
Transfer from Rowan University Alumni Association (note 5)	1,555,843	—
Net nonoperating revenues	<u>15,873,577</u>	<u>21,394,247</u>
Income before other revenues	10,855,681	14,582,176
Additions to permanent endowments	<u>9,427,806</u>	<u>6,858,625</u>
Increase in net position	20,283,487	21,440,801
Net position as of beginning of year, as restated (note 1(k))	<u>207,251,856</u>	<u>185,811,055</u>
Net position as of end of year	<u>\$ 227,535,343</u>	<u>207,251,856</u>

See accompanying notes to financial statements.

ROWAN UNIVERSITY FOUNDATION
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Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Payments to suppliers	\$ (479,410)	(501,906)
Payments for grants and scholarships	(10,586,147)	(13,527,670)
Contributions	7,555,625	4,936,435
Receipts from (payments to) Rowan University Alumni Association	17,447	(30,423)
Fundraising events	27,475	80,148
Other revenue	35,720	—
Net cash used by operating activities	<u>(3,429,290)</u>	<u>(9,043,416)</u>
Cash flows from noncapital financing activities:		
Contributions to permanent endowments	9,427,806	6,858,625
Payments to annuitants	(37,070)	(32,197)
Net cash provided by noncapital financing activities	<u>9,390,736</u>	<u>6,826,428</u>
Cash flows from investing activities:		
Investment income	3,703,336	2,524,011
Purchases of investments	(25,676,970)	(21,058,277)
Sales of investments	21,064,478	19,462,610
Net cash (used by) provided by investing activities	<u>(909,156)</u>	<u>928,344</u>
Net increase (decrease) in cash and cash equivalents	5,052,290	(1,288,644)
Cash and cash equivalents as of beginning of the year	<u>7,553,299</u>	<u>8,577,562</u>
Cash and cash equivalents as of end of the year	<u>\$ 12,605,589</u>	<u>7,288,918</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (5,017,896)	(6,812,071)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash transactions:		
Unrealized (gain) on deposits held in custody	—	(35,582)
Changes in assets and liabilities and deferred inflows of resources:		
Prepaid assets	—	3,600
Contributions receivable	(454,703)	(84,101)
Accounts payable and accrued expenses	12,372	(108,013)
Due to Rowan University	2,125,297	(1,491,795)
Unearned revenue	(111,807)	(520,613)
Deposits held in custody for Rowan University Alumni Association	17,447	5,159
Net cash used by operating activities	<u>\$ (3,429,290)</u>	<u>(9,043,416)</u>
Noncash transactions:		
Grants to Rowan University:		
Supplies	\$ 344,988	41,358
Equipment	57,640	226,478
Land	164,470	—
Building	488,475	—
Transfer from Rowan University Alumni Association	1,538,396	—
Increase in deferred inflows of resources	1,268	86,421
Increase in fair value of investments	10,640,563	18,870,235

See accompanying notes to financial statements.

ROWAN UNIVERSITY FOUNDATION
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Notes to Financial Statements

June 30, 2018 and 2017

(1) Organization and Summary of Significant Accounting Policies

Organization

Rowan University Foundation (the Foundation) was created to assist the board of trustees and the President of Rowan University (the University) in their efforts to achieve and advance the mission of the University. The Foundation's board of directors is appointed by the board of trustees of the University. The primary purpose of the Foundation is to raise money and obtain gifts-in-kind and to channel those monies and gifts to the University in meeting its educational mission. Although the University does not control the timing or amount of receipts from the Foundation, the resources the Foundation holds are invested and used exclusively for the benefit, support, and promotion of the University and its students for educational activities. The Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The University provides accounting, accounts payable and payroll services for the Foundation. The Foundation is an organization described under Section 501(c)(3) of the Internal Revenue Code and therefore exempt from Federal income taxes under Section 501(a) of the Code.

On August 14, 2014, the Rowan Innovation Venture Fund (the Fund) was formed as a legally separate, single member limited liability corporation whose sole member is the Foundation. The Fund is managed by or under the direction of the Fund's Board of Managers as appointed by the Foundation. Further, the Foundation is able to impose its will on the Fund by influencing its activities and is legally entitled to or can otherwise access the Fund's resources. Because the Foundation is financially accountable for the Fund, the Fund is considered a component unit of the Foundation. The primary purpose of the Fund is establishing, developing, owning, managing, operating and administering a seed and early stage venture capital fund to support and leverage the innovation talents and ideas of the members of the Rowan University community and to accelerate the impact of the University on the economic development of Southern New Jersey. As the Fund is organized as a not-for-profit corporation for which the Foundation is the sole member, its activities are blended into the totals of the Foundation. The Fund is treated as a disregarded entity by the Foundation under Treasury Regulations Sections 301.7701-1 through 301.7701-3 as it is a limited liability corporation with a single owner. Accordingly, the Fund is recognized as a tax-exempt entity as described in Section 501(c)(3).

Summary of Significant Accounting Policies

(a) Basis of Presentation

The accounting policies of the Foundation conform to U.S. generally accepted accounting principles. The Foundation reports are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements.

The Foundation classifies net position into the following:

- **Restricted:**

- Nonexpendable* – Net position subject to externally imposed stipulations that must be maintained permanently by the Foundation.

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Expendable – Net position whose use by the Foundation is subject to externally imposed stipulations that can be fulfilled by actions of the Foundation pursuant to the stipulations or that expire by the passage of time.

- **Unrestricted:**

Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the board of directors.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Foundation's policy is to apply the expense towards restricted resources and then towards unrestricted resources.

(b) Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting utilizing the economic resources measurement focus. The Foundation reports as a business-type activity, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

(c) Revenue Recognition

Contributions, including pledges other than endowment, are recognized when all eligibility requirements for recognition are met, which generally is the period the amount is donated to the Foundation. Additions to permanent endowment are recognized upon receipt. Investment and other income is recognized in the period earned. Unconditional promises to give which are to be received in future years are reflected at the estimated present value by discounting the contribution.

(d) Classification of Revenue

The Foundation's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that serve the Foundation's principal purpose and generally result from contributions to the Foundation and grants made to the University. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, investment income and adjustments of annuities payable. Other revenues include activities such as additions to permanent endowments.

(e) Cash and Cash Equivalents

The Foundation classifies as cash equivalents, funds which are in short-term, highly liquid investments and are readily convertible to known amounts of cash.

The Foundation invests portions of its cash with three custodians and two banks. Both are interest-bearing accounts from which the funds are available upon demand.

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Notes to Financial Statements

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(f) Investments

Investments are stated at fair value. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on an accrual basis. Realized and unrealized gains and losses are reported in investment income.

(g) Annuities Payable

Annuities payable are created when assets are contributed to the Foundation on condition that the Foundation obligates itself to pay stipulated amounts periodically to designated annuitants. Annuities payable are recorded at the present value of the expected future cash payments to the annuitants.

(h) Deposits Held in Custody for Rowan University Alumni Association

Cash, cash equivalents, and investments were held by the Foundation for the Rowan University Alumni Association (the Association) and were classified as deposits held in custody for the Association in the accompanying statements of net position until the integration with the Foundation on May 30, 2018.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Risks and Uncertainties

The Foundation maintains a diverse investment portfolio, as detailed in note 2. Alternative investments include interests in real estate, limited partnerships and other domestic and international investment funds. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence on key individuals and nondisclosure of portfolio composition. The Foundation reviews the performance and risks associated with these investments on at least a monthly basis. In addition, the Foundation utilizes the services of an investment consultant who continually monitors the individual investment fund performance, any changes in management at the investment fund or any other significant matters affecting the fund and advises the Foundation of any such changes.

As the Foundation is dependent on investment return to fund a significant portion of the operations of the Foundation, a significant decrease in investment return may have a material impact on the financial position, changes in net position, and cash flows of the Foundation.

(k) Adoption of Accounting Pronouncements

In fiscal year 2018, the Foundation implemented GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources at the inception of the agreement. GASB 81 also requires that a government recognize revenue when the resources become applicable to the reporting period. The Foundation's charitable gift annuity

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agreements meet the definition of an irrevocable split-interest agreement in which the Foundation has a remainder interest under GASB 81.

The provisions of GASB 81 have been retroactively applied to the beginning net position of fiscal year 2017. The following is a reconciliation of the total net position as previously reported at July 1, 2016 to the total restated net position:

Total net position as previously reported as of July 1, 2016	\$ 186,011,390
Restatement to beginning of year net position	<u>(200,335)</u>
Total net position as of July 1, 2016, as restated	<u>\$ 185,811,055</u>

(2) Cash, Cash Equivalents, Restricted Nonexpendable Investments and Investments

As of June 30, 2018 and 2017, the Foundation's cash, cash equivalents and investments, at fair value, are reported on the statements of net position as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 8,707,774	5,552,834
Restricted cash and cash equivalents	<u>3,897,815</u>	<u>2,000,465</u>
	<u>\$ 12,605,589</u>	<u>7,553,299</u>
Investments	\$ 50,191,293	48,962,338
Restricted investments	22,466,864	18,413,656
Restricted nonexpendable investments	<u>143,283,589</u>	<u>133,312,697</u>
	<u>\$ 215,941,746</u>	<u>200,688,691</u>

Cash, cash equivalents, restricted nonexpendable investments and investments consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents:		
Cash	\$ 3,480,896	5,496,058
Money market funds	<u>9,124,693</u>	<u>2,057,241</u>
	<u>\$ 12,605,589</u>	<u>7,553,299</u>

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	<u>2018</u>	<u>2017</u>
Investments:		
Bond mutual funds (domestic)	\$ 22,256,803	25,697,231
Common stock mutual funds (domestic)	85,676,939	70,532,206
Common stock mutual funds (international)	42,892,144	44,653,448
Venture capital investments	1,876,950	1,380,050
Alternative investments	<u>63,238,910</u>	<u>58,425,756</u>
	<u>\$ 215,941,746</u>	<u>200,688,691</u>

For the years ended June 30, 2018 and 2017, the increase (decrease) in fair value on investments was \$10,640,563 and \$18,870,235, respectively and the net realized gain on investments for June 30, 2018 and 2017 was \$6,360,481 and \$8,739,613, respectively. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year.

The Foundation has an investment policy, which establishes guidelines for permissible investments. The Foundation may invest in domestic equity securities, international equity securities, fixed income securities, real estate investments and venture capital investments. The Foundation's cash and cash equivalents and investments are subject to various risks. Among these risks are custodial credit risk, credit risk and interest rate risk. Each one of these risks is discussed below.

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. Cash and money market accounts were held at a depository and bank balances amounted to \$12,615,771 and \$8,275,115, as of June 30, 2018 and 2017, respectively. Of these amounts, \$365,678 was FDIC insured, leaving uninsured and uncollateralized balances of \$12,239,911 and \$8,025,115, respectively.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Standard and Poors (S&P) and Moody's. The Foundation's investment policy requires fixed income securities to replicate the Barclays Capital Aggregate characteristics with regard to maturity, structure, duration, credit quality, sector distribution, etc. As of June 30, 2018 and 2017, the bond mutual funds (domestic) were unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The Foundation's investment policy does not specifically address limitations in the maturities of investments.

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The Foundation's investments' average effective duration for June 30, 2018 and 2017 are as follows:

2018		
Investment type	Fair value	Average effective duration
Bond mutual funds (domestic)	\$ 6,894,043	5.67 years
Bond mutual funds (domestic)	4,446,773	6.13 years
Bond mutual funds (domestic)	6,870,963	6.05 years
Bond mutual funds (domestic)	155,933	6.03 years
Bond mutual funds (domestic)	3,889,091	-1.14 years
Total	<u>\$ 22,256,803</u>	

2017		
Investment type	Fair value	Average effective duration
Bond mutual funds (domestic)	\$ 6,912,720	5.49 years
Bond mutual funds (domestic)	6,854,107	5.67 years
Bond mutual funds (domestic)	3,963,636	0.04 years
Bond mutual funds (domestic)	156,807	5.97 years
Bond mutual funds (domestic)	7,809,961	5.62 years
Total	<u>\$ 25,697,231</u>	

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – unadjusted quoted or published prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.
- Level 3 – pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity or the investment.

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The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value:

- Bond and common stock mutual funds – The fair value of bond and common stock mutual funds are based on quotations obtained from national securities exchanges or the published price as of the measurement date.
- Venture capital investments – The fair value of the venture capital investments is based off of the initial cost of investments that are entered into during the current fiscal year and cost was determined to approximate fair value. Venture capital investments made in prior years are analyzed to determine if any adjustments to the cost basis of such investments is necessary.
- Alternative investments (including absolute return, private equity and realty investments) – The fair value is based off of the net asset value (NAV), which is provided by the investment managers and reviewed by the management for reasonableness.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The Foundation's financial instruments at June 30, 2018 are summarized in the following table by their fair value hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments measured at fair value:				
Bond mutual funds (domestic)	\$ 22,256,803	22,256,803	—	—
Common stock mutual funds (domestic)	85,676,939	85,676,939	—	—
Common stock mutual funds (international)	42,892,144	42,892,144	—	—
Venture capital investments	1,876,950	—	—	1,876,950
Subtotal	<u>152,702,836</u>	<u>\$ 150,825,886</u>	<u>—</u>	<u>1,876,950</u>
Investments measured at net asset value:				
Absolute return	32,393,018			
Private equity	19,667,196			
Realty investments	<u>11,178,696</u>			
Subtotal	<u>63,238,910</u>			
Total cash equivalents and investments	<u>\$ 215,941,746</u>			

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The Foundation's financial instruments at June 30, 2017 are summarized in the following table by their fair value hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments measured at fair value:				
Bond mutual funds (domestic)	\$ 25,697,231	25,697,231	—	—
Common stock mutual funds (domestic)	70,532,206	70,532,206	—	—
Common stock mutual funds (international)	44,653,448	44,653,448	—	—
Venture capital investments	1,380,050	—	—	1,380,050
Subtotal	<u>142,262,935</u>	<u>\$ 140,882,885</u>	<u>—</u>	<u>1,380,050</u>
Investments measured at net asset value:				
Absolute return	32,940,990			
Private equity	17,824,444			
Realty investments	<u>7,660,322</u>			
Subtotal	<u>58,425,756</u>			
Total cash equivalents and investments	<u>\$ 200,688,691</u>			

Investments Measured at NAV

The following table represents the unfunded commitments and redemption terms by investment type as of June 30, 2018:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Absolute return ^(a)	\$ 32,393,018	None	Quarterly	65–100 days
Private equity ^(b)	19,667,196	16,389,000	Illiquid	Not applicable
Realty investments ^(c)	<u>11,178,696</u>	11,398,000	Illiquid	Not applicable
	<u>\$ 63,238,910</u>			

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The following table represents the unfunded commitments and redemption terms by investment type as of June 30, 2017:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Absolute return ^(a)	\$ 32,940,990	None	Quarterly	65–100 days
Private equity ^(b)	17,824,444	15,383,000	Illiquid	Not applicable
Realty investments ^(c)	<u>7,660,322</u>	<u>8,559,000</u>	<u>Illiquid</u>	<u>Not applicable</u>
	<u>\$ 58,425,756</u>			

- (a) Absolute return includes 3 hedge funds that seek to achieve capital appreciations through various strategies, including long/short equity, long/short credit, relative value and other market neutral strategies. For one of the investments valued at \$18.9 million as of June 30, 2018, redemptions are restricted due to lockup provisions through March 31, 2019, whereas the remaining 75% of the investment will be released from restriction equally at the end of each quarter end. The remaining investments are redeemable as disclosed above.
- (b) Private equity includes 13 funds that seek to invest in nonpublicly traded investments that will eventually be sold at a return in excess of public markets. This strategy is implemented through illiquid vehicles and cannot be redeemed. The remaining life of these funds is 1 to 11 years with possible extensions for 9 funds. Capital is distributed to investors as the funds' investments are liquidated over that time period.
- (c) Realty investments include a total of 8 funds. One of the investments is an open end fund that has quarterly liquidity with 90 days' notice. 6 funds seek to purchase real estate that can be improved and later sold to provide a return that is in excess of public real estate markets. This strategy is implemented through illiquid vehicles and cannot be redeemed. The remaining life of these funds is 2 to 6 years with possible extensions for three funds. Capital is distributed to investors as the funds' investments are liquidated over that time period.

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(3) Contributions Receivable

Contributions receivable as of June 30, 2018 and 2017 are expected to be collected as follows:

	<u>2018</u>	<u>2017</u>
Year ending June 30:		
Less than one year	\$ 287,509	465,731
One to five years	1,299,751	791,103
More than five years	<u>390,685</u>	<u>306,395</u>
	1,977,945	1,563,229
Less present value discount at 1.2%–5.6%	<u>(140,946)</u>	<u>(180,933)</u>
	<u>\$ 1,836,999</u>	<u>1,382,296</u>

(4) Donor Restricted Endowment

The Foundation manages, invests and administers the donor restricted endowment funds in accordance with the Uniform Prudent Management of Institutional Funds Act. Endowment investments are subject to the restriction of gift instruments requiring that the principal be invested in perpetuity and the income be utilized in accordance with the terms of each specific gift. It is the Foundation's policy to account for endowment appreciation in accordance with donor specification.

Each January, the Foundation's board of directors approves an unrestricted annual appropriation from the Rowan Endowment to the University based upon the current spending policy. Currently, the spending policy is 4.5% of a twelve quarter rolling market value. The Foundation also contributes other restricted funds to the University. For the years ended June 30, 2018 and 2017, such contributions were \$11,061,684 and \$9,307,903, respectively.

The fair value of the Foundation's endowment assets as of June 30, 2018 and 2017 were \$207,198,055 and \$191,835,489, respectively. This value represents accumulated appreciation in the amount of \$63,914,466 and \$58,522,791, respectively. This appreciation is reflected in the unrestricted and restricted expendable net position balances in the amounts of \$46,599,628 and \$17,314,838, respectively in 2018 and \$44,083,834 and \$14,438,957, respectively in 2017.

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(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended June 30, 2018 and 2017 was as follows:

		2018			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Deposits held in custody for Rowan University Alumni Association	\$ 1,538,396	17,447	1,555,843	—	—
Annuities payable	319,574	24,897	37,070	307,401	37,630
	<u>\$ 1,857,970</u>	<u>42,344</u>	<u>1,592,913</u>	<u>307,401</u>	<u>37,630</u>
		2017			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Deposits held in custody for Rowan University Alumni Association	\$ 1,533,237	5,159	—	1,538,396	—
Annuities payable	173,811	177,960	32,197	319,574	37,630
	<u>\$ 1,707,048</u>	<u>183,119</u>	<u>32,197</u>	<u>1,857,970</u>	<u>37,630</u>

On May 30, 2018, the Rowan University Alumni Association (the Association) ceased operations and was dissolved, and all Association accounts were integrated with the Foundation. The integration resulted in the elimination of the Foundation's deposit liability associated with the net assets previously held in custody for the Association, increasing the total net position of the Foundation by \$1,555,843 as of the date of integration.

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(6) Restricted Nonexpendable Net Position

Restricted nonexpendable net position as of June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Henry and Betty Rowan for general operations	\$ 97,000,118	97,000,118
Henry M. Rowan College of Engineering Endowment	15,000,000	9,000,000
Jean & Ric Edelman Fossil Park Endowment	3,497,442	1,006,407
Rohrer College of Business	3,096,955	2,596,705
Keith and Shirley Campbell Endowment to support library operations	1,641,896	1,641,896
Thomas N. Bantivoglio Honors Program for scholarships	1,343,347	1,293,207
John B. Campbell Professorial Chair	1,176,282	1,176,282
Rohrer Scholars for scholarships	1,080,932	1,080,932
Lawrence & Rita Salva Medical School	1,010,250	1,010,250
William G. Rohrer Professorial Chair in the College of Business	1,000,000	1,000,000
King Family Professorial Chair	1,000,000	1,000,000
CMSRU Student Loan Assistance Program	1,000,000	1,000,000
Inspira Health Network Endowed Fund	1,000,000	1,000,000
Endowed Chair for Geriatrics	1,000,000	—
Henry M. Rowan Endowment for Engineering Scholarship	—	1,000,000
Other endowment funds	13,436,367	12,506,900
	<u>\$ 143,283,589</u>	<u>133,312,697</u>

(7) Designation of Unrestricted Net Position

Designated unrestricted net position as of June 30, 2018 consists of \$100,643 of funds for which the donor has expressed an intent to have their contribution endowed, but has not yet signed a formal donor agreement. As such, the Foundation has designated these funds to the endowment with the expectation that the funds will be transferred to a nonexpendable net position upon completion of the donor agreement. The Foundation did not have a designated unrestricted net position as of June 30, 2017.